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SUBJECT: AGRICULTURAL REFORMS IN TAJIKISTAN: MORE MANURE?

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[1](#)1. (SBU) Summary: At the end of May President Rahmon signed a decree calling for writing off over half a billion dollars in debt owed by cotton farmers to agricultural investors and, ultimately, the National Bank of Tajikistan. The International Monetary Fund (IMF) required the passage of a debt resolution plan before providing further assistance to Tajikistan. On July 8 - eight days late - the government distributed an action plan detailing how the process will work. The comprehensive plan provides not only for debt relief, but -- as donors demanded - also includes other reforms, including the establishment of land-use rights and guarantees that farms can choose which crops to grow. Given the failure of previous reforms that threatened the interests of those in power, the current plan will be a challenge to implement. The debt relief stands the most chance of succeeding, because it is in the interests of the elite. Cotton investors, many of whom are government officials or politically connected, get to write off millions of dollars in government loans they may never have intended to pay back. End summary.

A Plan to Resolve Cotton Debt

[1](#)2. (SBU) One of the major conditions to resume IMF lending to Tajikistan this year under the \$116 million Poverty Reduction and Growth Facility (PRGF) was the resolution of over half a billion dollars of debt owed by cotton farmers to investors. These investors had in turn borrowed most of the money from the National Bank of Tajikistan or abroad, an arrangement the government had kept hidden from the IMF (Ref A). Although an audit of the National Bank earlier this year revealed that it and other lending institutions were shockingly lax in keeping track of the debt owed to them (ref B), donors were concerned that investors continued to force farmers to grow cotton to pay off their accumulated debt. (Comment: The failure to track outstanding debt likely had a great deal to do with the fact that many of the investors were in the government or closely tied to it -- up to and including former National Bank chairman Murodali Alimardon -- and were essentially providing themselves loans they never intended to repay. End comment.)

13. (SBU) With a consultant paid for by the World Bank, Tapio Saavalainen, the government began drafting a comprehensive plan to reform the agricultural sector, including resolving the debt issue. The first step was the passage of Decree 663, signed by President Rahmon on May 30, "On additional measures to support the agricultural sector in the Republic of Tajikistan." The decree calls for writing off U.S. \$548 million in debt accumulated by farmers before January 1, 2008. This includes U.S. \$435 million owed to cotton investors, who in turn owe the money to the National Bank (through the quasi-governmental institution KreditInvest), as well as U.S. \$113 million owed by farmers to cotton investors who borrowed from commercial banks. (Comment: The basis for these numbers is unclear. They appeared without explanation in the initial draft legislation prepared by Saavalainen, and they have remained through each successive draft. Neither donors nor the government appear to have any firm sense of where they come from. The donors' general sense is that the government's commitment to forgive the farmers' debt is the most important issue, and that the sums under consideration are probably in the rough ballpark. End comment.)

14. (U) In return for writing off these debts, commercial banks will receive newly-issued long-term government securities. An additional U.S. \$154 million lent from the National Bank through KreditInvest to support ancillary, profit-making enterprises, such as ginneries, spinning factories, machinery, warehouses, and other infrastructure, must be repaid at an interest rate of 12% over eight years on equal quarterly installments. The decree calls for the establishment of an institution to implement the process of cotton debt restructuring, including ensuring that debts to and from investors are repaid as planned.

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Action Plan Leaves Some Questions Unanswered

15. (SBU) While Decree 663 outlined the broad goal of resolving cotton debt, it was short on specifics. The IMF set a deadline of June 30 for a detailed action plan laying out the specific debt resolution mechanisms as well as a series of other agricultural reforms required by the PRGF. On July 8 a plan -- Resolution 406, bearing the date July 2 -- was finally distributed to donors, ending some suspicions that the plan had not been approved. Despite persistent suggestions from the IMF and the donor community that cotton sector investors be made to shoulder more of the outstanding debt, the numbers in the resolution are the same as those in the earlier decree: \$548 million in debt will be written off, including \$435 million to the government and \$113 to commercial banks. In the view of many of the donors, this was too generous to the investors, who were the only ones to profit in an otherwise unprofitable sector. They received government loans they had no intention of paying back, leaving the farmers with debt and the government holding the bag, while reaping the proceeds of cotton sales.

16. (SBU) It was not clear whether donors made headway on three other demands. First, in a July 1 meeting with the Donor Coordination Council (DCC), the government agreed to move the cut-off date for debt write-off from January 1, 2008, to October 1, thus including more debt. In the final resolution, however, there is no mention of any cutoff dates. Second, the government agreed to remove Alimardon - promoted last year from National Bank chairman to Deputy Prime Minister - from the working group in charge of debt resolution. While the final document notes

specifically that the Prime Minister's office will supervise the implementation of the resolution, it does not list members of the working group. Finally, the Donors have long insisted that an essential component of the action plan must be a public communication strategy to ensure that farmers are aware of and understand their rights and responsibilities. Although the original decree was widely publicized in June, to date there has been only very minor discussion of the action plan in the press.

¶7. (SBU) The Donors raised all of these issues at a July 10 Donor Coordinating Council meeting (DCC) meeting. State Economic Advisor Matlubkhon Davlatov assured donors that their concerns hinged primarily upon legal formalities. He insisted that there would be flexibility in the amounts of debt relieved and the dates of debt accrued, provided that the debts were for cotton cultivation. He also reiterated that Alimardon would have no role in determining what debts are forgiven (he explained that in accordance with Tajik law, the action plan can only list offices, not individuals). Both of these were key issues for the IMF, and can be expected come up during the next evaluation mission at the end of August. As for the communication plan, Alimardon responded that donor assistance in this sphere would be welcome, but did not promise to increase official publication.

¶8. (SBU) The final resolution was apparently as controversial within the government as it was outside of it. At the July 1 meeting, Davlatov admitted that the government was having some "heated" internal discussions about the draft, although he would not go into further details. Some donors suspect that these discussions were the cause of the resolution's delay.

Will New Agriculture Reforms Do Any Better Than Old Ones?

¶9. (U) In addition to resolving the cotton debt, the government resolution aims to satisfy another IMF demand by detailing a program for reforming the entire agricultural sector. Some elements of this plan have been provided for by previous legislation, so it remains to be seen how the current resolution will succeed where its predecessors have failed. Resolution

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111, issued in March 2007, guaranteed farmers the freedom to grow the crops they wished and provided them with the ability to use land rights - tantamount to ownership -- as collateral in transactions. Some 37,000 land use certificates have so far been granted under Resolution 111. In reality, however, there has been no enforcement mechanism behind the law, and local governments (hukumats), in collaboration with central authorities, have continued to require and subsidize cultivation of a single crop: cotton. The increasing amount of cotton debt was likely responsible in part for the unprecedented number of rural Tajiks who went abroad in the past few years in search of work as labor migrants. A subsequent resolution, designed to improve implementation of Resolution 111, similarly failed to make much headway.

¶10. (SBU) According to Justin Holl, Jr., director of the Land Reform and Market Development Project funded by USAID, Resolution 111 had myriad problems. There was no related legislation governing how long land use certificates will last; the process of obtaining a certificate was lengthy and

complicated; debt from collective farms would be transferred to new owners, even though they may still be physically unable to use their land; local governments had a say in the process, opening the door to bribery and bullying; and, finally, farmers very often received parcels of land entirely different from the ones they sought. According to several agricultural experts, many "former" collective farms have been deliberately parceled out in such a way that individual farmers receive plots of land that are not adjacent to one another, or that are distant from irrigation sources. In this way, according to Kathrine Kelm, an agricultural consultant with the World Bank and DFID who has been intimately involved in the reform process, although the farm has technically been privatized, in fact it continues to be operated on a collective basis, usually by the former brigade leader, who controls all of the infrastructure and equipment, as well as access to markets. Yet there is some cause for optimism. Mr. Holl reported that even as the action plan's status was in doubt, a separate government-donor working group that his project leads approved all of the reform objectives that donors sought.

¶11. (U) Similarly, although Resolution 111 theoretically guaranteed farmers "freedom to farm" the crops they wished, the reality has been otherwise. According to a survey released earlier this year by the Food and Agriculture Organization (FAO), despite the fact that 80% of respondents had heard of Resolution 111, 86% of them still did not feel free to cultivate any crop other than cotton. The survey also revealed very high levels of interference by local hukumats in farmers' decisions.

¶12. (SBU) Given past difficulties with agricultural reform, some donors are skeptical of the current effort. They point out that the current system benefits those in power -- from the local hukumats all the way to Alimardon himself. Perhaps because of this, it is unclear how much ownership or interest the government has in seeing Decree 663 work. The draft decree appears to have been prepared in its entirety by Saavalainen and the action plan by another international consultant, Romas Zemekis, in both cases with limited input from official sources. Some doubt was put to rest last Friday, when the government gave a surprisingly detailed presentation on how it intended to fulfill the action plan. The fact that the government speaker was none other than Alimardon -- in theory removed from a position of responsibility -- illustrated what many donors feel is an ongoing difficulty the government faces. Alimardon is the one official who has the clout, knowledge, and inclination to lead agricultural reform, while his obvious conflicts of interest and poor track record should clearly disqualify him from participating.

Comment

¶13. (SBU) The government's interest in debt relief seems clear, although its motivations might be different from those of the international donor community. Where the IMF sees the debt

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forgiveness as an essential means of freeing farmers from crushing obligations to cotton investors, state officials -- many of whom are themselves cotton investors -- may very well see it as a state-funded bailout: they get to keep half a billion dollars lent out of the state treasury. This is quite a coup: in light of recent audit findings, it is likely that much of this money was diverted before it ever reached its intended

recipients. And, given the financial crisis and plummeting cotton prices, the investors were unlikely to see much if not most of the money they actually lent on to farmers. But the government's broader commitment to reform the agricultural sector remains in question. State lending to unprofitable cotton operations continue, just on-budget. Last year 180 million somoni was loaned to cotton investors. According to recent estimates, only 40% has been paid back. This year 140 million was lent, although technically to agriculture as a whole, not just cotton. The action plan calls for this amount to be decreased by 30% each year.

¶14. (SBU) Even assuming a genuine desire to reform, Decree 663 will be difficult to implement. Tajikistan's continued reliance on cotton production is the result of ingrained economic and social practices dating from the early days of the Soviet Union.

Many of the underlying problems are social and economic: hukumats often exercise dictatorial authority, farmers remain relatively uneducated and poorly informed about new practices and possibilities, and the agricultural sector is structured around getting cotton to market. While the debt resolution plan attempts to get to the root of this by introducing systemic reform, the very comprehensiveness of the plan, in a country with little monetary or technical capacity, will make it difficult to carry through.

JACOBSON